

Dr. Leonard J. Heere, President
MH Enterprises
1579 B Savannah Highway
Charleston, South Carolina 29407

Re: AC# 3-MDB-J5 – MH Enterprises, Inc. d/b/a Meadow Brook

Dear Dr. Heere:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1994 through September 30, 1995. That report was used to set the rate covering the contract periods beginning October 1, 1996.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Mac Carroll

**MH ENTERPRISES, INC. D/B/A MEADOW BROOK
BLACKVILLE, SOUTH CAROLINA**

**CONTRACT PERIODS
BEGINNING OCTOBER 1, 1996
AC# 3-MDB-J5**

**REPORT ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

October 20, 1998

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with MH Enterprises, Inc. d/b/a Meadow Brook, for the contract periods beginning October 1, 1996 and for the twelve month cost report period ended September 30, 1995, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by MH Enterprises, Inc. d/b/a Meadow Brook, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and MH Enterprises, Inc. d/b/a Meadow Brook dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computations of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
October 20, 1998

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

Thomas L. Wagner, Jr., CPA
State Auditor

MEADOW BROOK HEALTH CARE CENTER

Computation of Rate Change
For the Contract Periods
Beginning October 1, 1996
AC# 3-MDB-J5

	<u>10/01/96-</u> <u>03/31/97</u>	<u>04/01/97-</u> <u>09/30/97</u>
Interim reimbursement rate (1)	\$72.07	\$72.07
Adjusted reimbursement rate	<u>71.56</u>	<u>71.56</u>
Decrease in reimbursement rate	\$ <u>.51</u>	\$ <u>.51</u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated July 17, 1998

MEADOW BROOK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1996 Through March 31, 1997
AC# 3-MDB-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$2.79	\$35.25	\$39.84	\$35.25
Dietary	<u>.66</u>	<u>7.67</u>	<u>9.46</u>	<u>7.67</u>
Subtotal	<u>\$3.45</u>	42.92	49.30	42.92
Laundry/Housekeeping/Maint.	\$.82	6.50	7.32	6.50
Administration & Med. Rec.	<u>2.31</u>	<u>6.29</u>	<u>8.60</u>	<u>6.29</u>
Subtotal	<u>\$3.13</u>	55.71	<u>\$65.22</u>	55.71
<u>Costs Not Subject to Standards:</u>				
Utilities		1.60		1.60
Special Services		-		-
Medical Supplies & Oxy.		2.09		2.09
Taxes and Insurance		.67		.67
Legal Fees		<u>.02</u>		<u>.02</u>
TOTAL		<u>\$60.09</u>		60.09
Inflation Factor (4.90%)				2.94
Cost of Capital				6.53
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.10
Cost Incentive - For Gen. Serv. & Dietary				3.45
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(3.80)
Minimum Wage Add On				<u>.25</u>
 ADJUSTED REIMBURSEMENT RATE				 <u>\$71.56</u>

MEADOW BROOK HEALTH CARE CENTER
Computation of Adjusted Reimbursement Rate
For the Contract Period April 1, 1997 Through September 30, 1997
AC# 3-MDB-J5

	<u>Profit Incentive</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services	\$3.00	\$35.25	\$42.83	\$35.25
Dietary	<u>.66</u>	<u>7.67</u>	<u>9.46</u>	<u>7.67</u>
Subtotal	<u>\$3.66</u>	42.92	52.29	42.92
Laundry/Housekeeping/Maint.	\$.82	6.50	7.32	6.50
Administration & Med. Rec.	<u>2.31</u>	<u>6.29</u>	<u>8.60</u>	<u>6.29</u>
Subtotal	<u>\$3.13</u>	55.71	<u>\$68.21</u>	55.71
<u>Costs Not Subject to Standards:</u>				
Utilities		1.60		1.60
Special Services		-		-
Medical Supplies & Oxy.		2.09		2.09
Taxes and Insurance		.67		.67
Legal Fees		<u>.02</u>		<u>.02</u>
TOTAL		<u>\$60.09</u>		60.09
Inflation Factor (4.90%)				2.94
Cost of Capital				6.53
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				2.10
Cost Incentive - For Gen. Serv. & Dietary				3.66
Effect of \$1.75 Cap on Cost/Profit Incentives and Cost Sharing				(4.01)
Minimum Wage Add On				<u>.25</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$71.56</u>

MEADOW BROOK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-MDB-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments <u>Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$1,060,929	\$ -	\$ -	\$1,060,929
Dietary	229,322	1,532 (2)	-	230,854
Laundry	47,277	-	-	47,277
Housekeeping	98,478	-	-	98,478
Maintenance	49,788	-	-	49,788
Administration & Medical Records	189,242	-	-	189,242
Utilities	51,923	-	3,763 (3)	48,160
Special Services	-	-	-	-
Medical Supplies & Oxygen	75,234	-	9,295 (2) 2,943 (4)	62,996
Taxes & Insurance	20,128	-	-	20,128
Legal Fees	488	-	-	488
Cost of Capital	<u>196,251</u>	<u>566</u> (5)	<u>172</u> (1)	<u>196,645</u>
Subtotal	2,019,060	2,098	16,173	2,004,985

MEADOW BROOK HEALTH CARE CENTER
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1995
AC# 3-MDB-J5

<u>EXPENSES</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Ancillary	11,202	1,452 (2) 2,202 (4)	-	14,856
Non-Allowable	75,699	172 (1) 6,311 (2) 3,763 (3) <u>741 (4)</u>	566 (5)	86,120
Total Operating Expenses	<u>\$2,105,961</u>	<u>\$16,739</u>	<u>\$16,739</u>	<u>\$2,105,961</u>
TOTAL PATIENT DAYS	<u>*30,094</u>	<u>-</u>	<u>-</u>	<u>30,094</u>

*Adjusted to 97% occupancy

TOTAL BEDS 85

MEADOW BROOK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MDB-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$ 6,406	
	Accumulated Depreciation	933	
	Nonallowable	172	
	Cost of Capital		\$ 172
	Other Equity		7,339
	To adjust fixed assets and related depreciation to allowable HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Dietary	1,532	
	Ancillary	1,452	
	Nonallowable	6,311	
	Medical Supplies and Oxygen		9,295
	To properly classify dietary and nonallowable expenses DHHS Expense Checklist HIM-15-1, Section 2304		
3	Nonallowable	3,763	
	Utilities		3,763
	To reclassify payment to the South Carolina Employment Security Commission to nonallowable HIM-15-1, Section 2304		
4	Nonallowable	741	
	Ancillary	2,202	
	Medical Supplies and Oxygen		2,943
	To properly classify prescription drugs and nonallowable expense State Plan, Attachment 4.19D		

MEADOW BROOK HEALTH CARE CENTER
Adjustment Report
Cost Report Period Ended September 30, 1995
AC# 3-MDB-J5

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Cost of Capital Nonallowable	566	566
	To adjust cost of capital to allowable State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	<u>\$24,078</u>	<u>\$24,078</u>

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MEADOW BROOK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-MDB-J5

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.0472</u>
Deemed Asset Value (Per Bed)	31,973
Number of Beds	<u>85</u>
Deemed Asset Value	2,717,705
Improvements Since 1981	138,160
Accumulated Depreciation at 9/30/95	<u>(668,973)</u>
Deemed Depreciated Value	2,186,892
Market Rate of Return	<u>0.070</u>
Total Annual Return	153,082
Return Applicable to Non-Reimbursable Cost Centers	-
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Annual Return	153,082
Depreciation Expense	43,260
Amortization Expense	318
Capital Related Income Offsets	(15)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>
Allowable Cost of Capital Expense	196,645
Total Patient Days (Minimum 97% Occupancy)	<u>30,094</u>
Cost of Capital Per Diem	\$ <u><u>6.53</u></u>

MEADOW BROOK HEALTH CARE CENTER
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1995
AC# 3-MDB-J5

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$3.21
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$7.20</u>
Reimbursable Cost of Capital Per Diem	\$6.53
Cost of Capital Per Diem	<u>6.53</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>